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### Rental Shifts in the Dallas Area: All Submarkets are not Created Equal as the Apartment Market Begins Recovery

With the recent deluge of new construction nearly spent, we can now look at areas of the market that are seeing an increase in leasing activities and which areas seem to be losing residents. With Occupancy Rates up year-over-year in 17 of ALN's 23 submarkets in the Dallas area, Effective Rents are also beginning to follow. These are good signs for the market as a whole, but let's look at some particularly strong areas of town.

Obviously, absorption numbers tend to be higher in areas that have a lot of new product. Led by the McKinney/Allen/Frisco subareas in the far northern suburbs, there are now 3401 additional occupied units at the end of September 2010 than there were one year earlier. And the best news is that they only had a net gain of 78 new units open within that same time period. This has allowed the submarket to raise its occupancy rate from an abysmal 74.9% to a current level of 91.1%, nearly a full percentage point higher than the Greater Dallas average. At the same time, this submarket has been able to raise Effective Rents slightly. Expect this market to increase rents significantly, even if at the expense of slower occupancy growth.

Also experiencing a new surge of residents is the Uptown/Downtown area. With a net gain of 3308 new leases, this submarket saw a 9.4% increase in Occupancy to now stand at 90.8%, also above the market average. 1051 net new units

became available during the past year but they were fairly easily absorbed while Effective Rents also increased 0.7% to \$1.28 per square foot on average. It has been a long time since this area of Dallas has posted strong numbers, primarily because of the concentration of new construction in this submarket and the uniformity of product type (Luxury Mid and High-rises). Look for this market to continue similar growth patterns in Occupancy and rents.

Other areas that have seen significant growth in new residents include Plano, Las Colinas/Valley Ranch and the Westgrove/Dallas North Tollway area. In most of these areas, managers were able to raise rental rates as well. However, not all areas of the Metroplex have reported such increases.

The Park Lane/Greenville submarket has seen a large amount of renovation and teardowns. It is an area currently in flux and consists of some very old product mixed in with the new. It may come as a surprise to many that the Park Lane/Greenville submarket is now reporting the third-highest effective rental rates per square foot in all of the Dallas area. However, this turnover is coming at a price: Occupancy levels are down 0.3% to 87.8%; Effective Rents are up 1.6% to \$0.95 per square foot and absorption is down 393 over the last year. Expect volatility to continue in this submarket as repositioning continues.

Nearby in the Skillman/Audelia area, Effective Rents are off 3.8%, Occupancy is down 1.3% and absorption is down 264 units over the past year. Again, some

repositioning is taking place, but this area got a later start than their neighbors to the south and then got stuck right in the middle of the economic downturn. Expect renovations and teardowns to resume in this submarket as capital returns.

The South White Rock Lake subarea has also seen a decrease in rented units. Occupancy here is off 3.3% with Effective Rents down 2.1%. This relatively small area saw a drop in absorption of 261 units over the last year and their struggles show no signs of immediate improvement.

Overall, 2010 will go down as the start of the recovery in the local apartment market. The first three quarters have shown marked improvement for the Dallas area with occupancies up above 90% again and rental rate changes rebounding into positive territories. 4<sup>th</sup> Quarter is historically a weak rental period for the Dallas area, but even if the numbers do not improve much for the rest of this year, Dallas is poised for significant gains as we enter 2011. Economic indicators for this area, though tentative are still promising: Job growth has been fairly steady; very few mass layoffs have been announced; household formation seems to be returning and there is virtually no new product in the pipeline. All of these factors are positive signs for the local apartment industry for the next several quarters.

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Submarket	Occupancy			Effective Rent			Prior Year Absorption			Unit
	3Q 2009	3Q 2010	% Chg	3Q 2009	3Q 2010	% Chg	3Q 2009	3Q 2010	Change	Change
Westgrove/ Dallas North Tollway	88.5	91.7	3.6%	\$0.86	\$0.88	2.8%	-171	811	982	-24
Preston/Frankford	92.7	93.7	1.1%	\$0.88	\$0.86	-3.3%	-145	125	269	-4
North Dallas/Farmers Branch	89.0	91.4	2.7%	\$0.85	\$0.87	3.1%	76	482	405	42
Carrollton	90.2	92.6	2.7%	\$0.87	\$0.85	-3.1%	-304	348	652	36
Plano	92.6	94.7	2.3%	\$0.93	\$0.94	1.9%	413	1,904	1,491	1332
Richardson/Maham Road	89.8	90.3	0.5%	\$0.86	\$0.86	0.1%	528	227	-301	183
Skillman/Audelia	83.8	82.7	-1.3%	\$0.76	\$0.73	-3.8%	-314	-264	50	-33
Park Ln/Greenville Ave	88.0	87.8	-0.3%	\$0.93	\$0.95	1.6%	-793	-393	401	-386
Plano Rd/Northwest Hwy	85.9	87.5	1.9%	\$0.70	\$0.71	1.2%	-187	127	314	0
Garland	89.4	91.6	2.5%	\$0.82	\$0.81	-1.0%	89	392	302	1
Mesquite/Balch Springs	89.5	90.4	1.0%	\$0.79	\$0.78	-2.4%	-306	127	434	1
South White Rock Lake	88.5	85.5	-3.3%	\$0.83	\$0.81	-2.1%	218	-261	-479	-12
Uptown/Downtown/Park Cities	83.1	90.8	9.4%	\$1.27	\$1.28	0.7%	391	3,308	2,917	1051
Bachman Lake	90.2	86.7	-3.9%	\$0.80	\$0.79	-1.1%	-37	257	295	665
Las Colinas/Valley Ranch	90.0	93.2	3.6%	\$1.00	\$1.00	-0.1%	325	1,067	743	411
North Irving	88.7	89.3	0.8%	\$0.76	\$0.74	-2.6%	-532	100	632	0
South Irving	86.8	90.4	4.2%	\$0.78	\$0.76	-2.3%	-795	71	867	-339
Lewisville/Coppell	91.4	92.7	1.5%	\$0.89	\$0.90	1.1%	-239	287	525	3
Southeast Dallas	81.7	81.8	0.1%	\$0.71	\$0.71	-0.2%	-126	-78	48	-100
Southwest Dallas	86.3	86.3	-0.1%	\$0.76	\$0.75	-1.2%	-902	248	1,151	297
Duncanville/Desoto/Lancaster/Cedar Hill	91.9	90.3	-1.8%	\$0.82	\$0.81	-1.4%	220	-12	-232	159
Grand Prairie	87.1	90.1	3.4%	\$0.84	\$0.83	-1.4%	-494	308	802	-106
McKinney/Allen/Frisco	74.9	91.1	21.5%	\$0.91	\$0.91	0.2%	991	3,401	2,410	78
Greater Dallas	87.7	90.2	2.9%	\$0.89	\$0.89	0.1%	-2,237	12,735	14,972	3255
DFW Metroplex	87.4	90.1	3.2%	\$0.86	\$0.86	0.1%	-2,861	18,151	21,012	3804